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Evolution of UK Corporate Ownership and Control: Codification, Governance, Transition and Context

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Overview

Understanding 21st century finance is an urgent task for academics, practitioners and policymakers alike. More often than not, the research agendas and debates have been established and taken forward by scholars within the silos of their own academic fields. This chapter highlights the need to re-appraise some of the terminology and methodology we use in relation to charting the evolution of British business and stimulate a more interdisciplinary dialogue between business history and other disciplines. The chapter begins with an account of the evolution of UK ownership and corporate control starting from the middle of 19th century to the present day. The emergence of a new class of institutional investor-owners such as pension funds, insurance companies, endowment funds and other asset managers is noted, alongside their increasing significance within academic and policy debates. Turning from the historical to the contemporary, the chapter elaborates on the development of corporate governance codes, which place more emphasis on greater accountability and stewardship both inside and outside the corporate boardroom. Using examples from corporate governance research, the chapter proceeds with a selective overview of the mixed evidence of institutional investor stewardship, but at the same time a lack of voice and influence over the strategic decisions senior managers make. The apparent lack of investor engagement and ‘control’ undermines the extensive use of labels such as ‘Financial Capitalism’ or ‘The New Financial Capitalism’ within the academic literature and popular press. The concluding sections of this chapter cautions against an oversimplified use of such terms and call for a more contextualised view of ownership where intellectual conversations would attend to both historic contexts, as well as theoretical and practical implications.

Patterns of UK Corporate Ownership and Control

One of the key questions in the history of the modern public company is when exactly did corporate ownership become separate from corporate control? The literature on the evolution of corporate ownership is voluminous,¹ and is highly influenced by the seminal work of Berle and Means (1932) whose view was that US companies were the early movers, with ownership being separated from control at some stage in the early twentieth century followed by the same transition in other Anglo-Saxon economies in the latter part of the

¹ For an overview see J.F. Wilson (1995) *British Business History, 1720-1994* (Manchester, 1995). For thorough surveys of historical trends influencing the development of Britain’s current system of corporate governance see Cheffins B. (2001). ‘Law, Economics and the UK’s System of Corporate Governance: Lessons from History’, *Journal of Corporate Law Studies*, 71 and Cheffins, B. (2004). ‘Mergers and the Evolution of Patterns of Corporate Ownership and Control: The British Experience’, *Business History*, Vol. 46, No. 2, pp.256-284. For a political and historical account of corporate governance see Mar Roe (2004). ‘Institutions of Corporate Governance’ in Menard, C and Shirley, M, eds., *Handbook for New Institutional Economics* (Norwell MA: Kluwer Academic Publishers).

twentieth century (Acheson, et al, 2015). Subsequently, one of the well-established facts about corporate ownership is that ownership of large listed companies is dispersed in the UK and US and concentrated in most other countries (Franks, Mayer and Rossi, 2005). In the UK, even in the absence of strong investor protection rights dispersed ownership has emerged rapidly in the first half of the 20th century. In a comprehensive analysis of the evolution of law, finance and ownership of corporations, Franks, Mayer and Rossi associate dispersion of ownership with growth in issued equity, particularly in acquisitions rather than changes to regulations. The authors associate regulation with greater market liquidity in controlling shareholding blocks. The strengthening of regulation in the second half of the 20th century promoted markets in and for corporate control that undermined relations between owners and managers, which initially were based on trust, but which in turn made it easier for a market for corporate control to emerge. This view is consistent with Cheffins' (2004) study of British evolution of corporate ownership, which considered merger activity to be an important agent of change where regulation of anti-competitive conduct is a potentially key determinant of corporate ownership structures. Hannah and Kay (1977) also link this to levels of concentration in British industry. Indeed, giant firms in the early 20th century simply could not have existed in the society of 'Personal Capitalism', which had been the norm a century earlier. Crucially, economies of scale and scope, widening markets, technological and managerial innovations and network effects have driven corporate growth and with it the emergence of professional managers and administrators (Foreman-Peck and Hannah, 2012).

It is important to note that in the latest and first broadly representative study for any early twentieth-century economy, Foreman-Peck and Hannah (2012) break conventional wisdom on the separation of ownership from control in the UK by providing evidence of the evolution of managerial control being substantially complete before 1914. The authors report that in the 337 largest independent UK companies in 1911, the directors routinely had control without ownership; management was independent of securities owners and UK investors had large overseas portfolio investments. When combined, these factors indicate that the majority of the corporate securities owned by UK investors were substantially divorced from managerial control, a dispersion which had happened long before Berle and Means (1932) quantified it for the US. Most recently, Acheson et. al. (2015) go further and provide an even stronger case for support to the argument that diffuse ownership was present in the UK as early as the second half of the 19th century. Moreover, ownership was dispersed not only in large firms but also in medium-sized and small companies. Their argument that ownership diffusion occurred in an era of weak shareholder protection law also undermines the influential law and finance assumptions.² All in all, the dispersion of ownership steadily increased over the century and outsiders progressively replaced the insiders as the dominant holders of British equities.

It is also vital to stress that while the UK has for the last 200 years had a robust financial services sector, its expansion was particularly striking in the last two decades of the twentieth century (Daunton, 1989). Deregulation of financial services and the effective

² La Porta, Lopez-de-Silanes and Shleifer, 'Corporate ownership around the world' and 'The economic consequences of legal origins'; La Porta, Lopez-de-Silanes and Shleifer and Vishny, 'Law and Finance'.

privatisation of personal finance prompted a large flow of funds into pension, insurance and property-based financial products (Coggan, 1995). An associated increase in the availability of financial intermediation, in the form of lawyers, underwriters, accountants and other professionals, has facilitated the processes of corporate restructuring. Inefficient capital markets allowed greater tolerance of what Cain and Hopkins (1993) referred to as ‘gentlemanly capitalists’, which were characterised by reduced accountability to external stakeholders. These groups, indeed, stifled the development of capital markets because they relied on personal contacts and inherited wealth.

Overall, the discourse about the evolution of British business is dominated by the assumptions that it happened in several distinct periods. For over forty years a majority of business historians have relied on Alfred Chandler’s model based on differing patterns of ownership and control which were said to develop in stages from *personal* through to *entrepreneurial* and on to *managerial* forms of capitalism (Chandler, 1990). This categorisation was later on complemented by Lazonick’s three-stage model which characterised forms of ownership in terms of *proprietary*, *managerial* and *collective* forms (Lazonick, 1991). Lazonick’s thesis, which was more concerned with the nature of decision-making in different business systems, contrasted with the deterministic nature of Chandler’s model. The three stages proposed by Lazonick’s model represented more the descriptions of different systems at various points in history, where *proprietary capitalism* related to British business up to the 1940s; *managerial capitalism* mostly described American business for the most part of the 20th century; and *collective capitalism* described a Japanese business model between the 1940s and 1960s. In other words, Lazonick did not just add another ‘stage’ to the Chandler’s model, by adding a *collective* step, but he was looking at different systems over time.

However, both Chandlerian and Lazonick’s models have been criticized by business historians for a lack of universal appeal. For example, Toms and Wilson (2003) argue that Chandler’s model fails to accommodate national cultures and national institutions, as well as a constantly changing flow of power. Furthermore, Wilson (1995) observes that both Chandler’s and Lazonick’s models fail to link these stages to the overall state of economic development. Interestingly, Wilson (1995) argues that different forms of capitalism could be operating alongside each other. For example, personal (or proprietary) firms can be operating alongside *managerial* or *collective* corporations, that in spite of a bias towards large-scale firms, the existing models offer only a very simplistic insight into the dynamics of management structure and decision-making, ignoring the differences between strategic, functional and operational management. We will revisit these important arguments later in the chapter.

Notwithstanding a significant amount of criticism³ that Chandler’s and Lazonick’s work has had from business historians, there is general agreement among scholars that the separation of ownership from control has resulted in a shift to ‘managerial capitalism’

³ See the work of Steven Toms and John F. Wilson on ‘Revisiting Chandler on the theory of the firm’ and ‘Scale, Scope and Accountability: Towards a New Paradigm of British Business History’ and John F Wilson’s ‘Modelling the Evolution of British Business: New and Old Approaches’.

(Aguilera, et. al., 2006), which in turn has encouraged ownership diversification to the point where most shareholders only held small stakes within companies (Mayer, 2000). The changed pattern of share ownership in the UK and US has over the past 30 years led to a greater concentration of ownership in the hands of institutional investors such as insurance companies and pension funds (Mallin, et. al., 2005). Table 1 demonstrates the changes in UK ownership patterns that took place between 1963 and 2010. While analysing the evolution of direct ownership structures in the UK for the decade 1991-2001, Marchica and Mura (2005) document that whilst outside ownership was relatively stable over time, ranging from about 22% in 1991 to 32% in 2001, there was a steady decrease in insider ownership. For example, executive director ownership has been declining from 14.22% in 1991 to 7.57% in 2001. According to Mallin (2008), institutional investors such as insurance companies, pension funds, banks, unit and investment trusts and other financial institutions owned approximately 45% of UK equities, with overseas institutional investors owning 40% and individuals owning only 13% of UK equity. This reflects a broader trend where share ownership by individuals has been decreasing, from 54% in 1963 to 11.5% in 2010 (ONS).

Table 1 Percentage of total market value of UK quoted shares by sector of beneficial owner 1963-2010

| Sector | 1963 | 1975 | 1981 | 1991 | 1997 | 2001 | 2010 |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Rest of the world | 7.0 | 5.6 | 3.6 | 12.8 | 28.0 | 35.7 | 41.2 |
| Insurance companies | 10.0 | 15.9 | 20.5 | 20.8 | 23.6 | 20.0 | 8.6 |
| Pension funds | 6.4 | 16.8 | 26.7 | 31.3 | 22.1 | 16.1 | 5.1 |
| Individuals | 54.0 | 37.5 | 28.2 | 19.9 | 16.5 | 14.8 | 11.5 |
| Unit trusts | 1.3 | 4.1 | 3.6 | 5.7 | 4.2 | 1.3 | 6.7 |
| Investment trusts | ... | ... | ... | 1.5 | 1.2 | 1.6 | 2.1 |
| Other financial institutions | 11.3 | 10.5 | 6.8 | 0.8 | 1.3 | 7.2 | 16.0 |
| Charities | 2.1 | 2.3 | 2.2 | 2.4 | 1.9 | 1.0 | 0.9 |
| Private non-financial companies | 5.1 | 3.0 | 5.1 | 3.3 | 1.2 | 1.0 | 2.3 |
| Public sector | 1.5 | 3.6 | 3.0 | 1.3 | 0.1 | - | 3.1 |
| Banks | 1.3 | 0.7 | 0.3 | 0.2 | 0.1 | 1.3 | 2.5 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

By 2015, out of £6.6 trillion of assets under management in the UK, approximately £2.1 trillion were invested through pension funds, £1.2 trillion were in retail investment products and £0.4 trillion in public sector and charity investments. There is a further £1 trillion investment in insurance products and £1 trillion invested in non-mainstream asset management products, which include pension fund investments (FCA, 2015). In 2010, UK pension funds invested around 43% of their assets in UK equities, a figure that amounted to nearly £400 billion (The Pension Protection Fund, 2010). Considering this significant amount of capital under institutional investor's management, it is unsurprising that both academics and policy makers have assigned a greater role to institutional investors within both the policy agenda and scholarly debates.

Development of Corporate Governance Codes

A variety of factors have put corporate governance research and policy under the spotlight, including the changing nature of the UK ownership landscape, the dynamics of power and influence in and around corporate boardrooms, and an apparent inability of boards to oversee and discipline managers, which was becoming evident in persistent spectacular and surprising British corporate failures in the final quarter of the twentieth century. A

chapter by Steven Toms in this book analyses the history of fraud and financial scandals in the United Kingdom, identifying some common features. Corporate collapses of firms such as Bank of Credit and Commerce International (BCCI) have been investigated in detail, demonstrating that this arose because of weak oversight within a complex multinational organisation. Other cases - Barings, Blue Arrow, British and Commonwealth/Atlantic Computers, Coloroll, Guinness, Lloyd's of London, Mirror Group/Maxwell, Polly Peck, Queen's Moat House Hotels and Ferranti represented the examples of wider contemporary failures in auditing and financial reporting. These failures precipitated efforts to improve governance and accountability, which began with the Cadbury Report in 1992 (Billings, et al, 2015).

The Committee on Financial Aspects of Corporate Governance, also known as the Cadbury Committee, was set up in May 1991 to address the increasingly voiced concerns about the conduct of the UK companies and how they dealt with financial reporting, accountability and the wider implications of these issues. The Committee was sponsored by the London Stock Exchange (LSE), the Financial Reporting Council (FRC) and the accountancy profession. It produced a draft Report in May 1992 and, after further consultation, published its final Report and recommendations in December 1992. Central to these was the code of best practice in corporate governance (the Cadbury Code) and the requirement for companies to comply with it or explain to their shareholders why they had not done so.

The Cadbury Report played a crucial role in influencing thinking about corporate governance around the world. The Report had identified 'corporate governance' as 'the system by which the companies are directed and controlled. Boards of directors are responsible for the governance of their companies'. Notwithstanding the significance of this report, however, many critics have argued that it did not go far enough to improve corporate governance practices by simply introducing a 'comply or explain' culture. Tilba (2015) suggests that the narrative around Cadbury was framed mostly in terms of resolving the issues arising between shareholders and boards, excluding, for example, the employees. In their review of the history of Cadbury Committee Spira and Slinn were also reluctant to highlight that the 'comply or explain' agenda might indicate that the membership of the committee did not seem to be interested in changing anything substantial (Tilba, 2015).

Perhaps not surprisingly more governance reports that followed⁴ focused on preventing the potential abuse of corporate power and called for greater accountability, compliance and independence at board level, the separation of the role of chairman of the board from that of chief executive, as well as more effective participation by non-executive directors on boards. The Higgs Review, which particularly focused on the roles and effectiveness of non-executive directors (2003) has led to the changes to the UK Combined Code and served as a basis for new governance regulation in other countries. Since the publication of Cadbury in 1992 and the UK Combined Code, corporate governance codes have become an important global phenomenon informing how both businesses set policy and governments assess the need for regulation (Aguilera and Cuervo-Cazurra, 2004). In the US, for example, Institutional Shareholder Services and Investor Responsibility Research Center have emerged, while by 2002 the US Sarbanes-Oxley Act was rushed through following yet more corporate scandals such as Enron, Worldcom, Tyco and Arthur Andersen. The Act significantly raised corporate governance requirements for all companies listed in the US.

However, despite the developments in governance regulation through 'hard' laws in the US or 'soft' law (code-based) in the UK, the financial crisis of 2007-2009 has

⁴ For an overview of the development of UK corporate governance codes see Nordberg and McNulty (2013). 'Creating better boards through codification: Possibilities and limitations in UK corporate governance, 1992-2010', *Business History*, 55:3, 348-374.

demonstrated that poor conduct and governance failures still persisted. The impact of recurring collapses, especially the loss of pensions savings of employees, raised questions on the social legitimacy of corporations, prompting further reconsiderations of what constitutes good (even, best) corporate governance practices in the UK and around the world. In 2009 the UK's FRC commissioned a fresh revision of the Combined Code, which was conducted in parallel with a review of corporate governance in UK banks (Walker Review, 2009). The outcome of these reviews was the new UK Corporate Governance Code. Nordberg and McNulty (2013) observe a shifting discourse in the codification within UK corporate governance away from board structures, composition and procedures in Cadbury towards 'behaviour', as the code seeks to improve board effectiveness as a mechanism of governance. The revised version of the Code now explicates that compliance is not enough; what is also important is the substance of compliance, which is context-specific and involves the behaviour of actors both in and around boards.

The emergence of institutional investors such as insurance companies and pension funds, as well as the arrival of non-traditional investors such as hedge funds and investors outside the UK (see Table 1), have also altered the character of the codes. Greater attention is now being given to the role that institutional investors in the UK and the US *ought* to perform in corporate governance (Mallin, 2008), highlighting the degree of disengagement currently pursued by these bodies. Following governance scandals relating to Enron in 2001 and leading up to the collapse of Lehman Brothers in 2008, a number of 'voluntary' codes have prescribed greater investor monitoring and engagement vis-à-vis investee companies (the Myners Review, 2001; HM Treasury Review of Myners Principles, 2004). By 2006, the Combined Code on Corporate Governance was requiring institutional investors to make considered use of their votes; enter into a dialogue with investee companies based on the mutual understanding of objectives; and give due consideration to all relevant factors drawn to their attention when evaluating corporate governance arrangements of their investee companies. Similar requirements have been published by the ISC's Responsibilities of Institutional Shareholders and Agents: Statements of Principles (Institutional Shareholders' Committee, 2007). In the UK the financial crisis has served to heighten the expectations of policy-makers that institutional investors should act as stewards and engaged owners of shares (Ownership Commission, 2012; The Stewardship Code, 2010).

A year-long review by John Kay of UK equity markets (2012) was especially critical of investment short-termism and a lack of investor ownership behaviour. The Kay Review emphasized the need for a shift towards long-term and fiduciary standards, necessitating loyalty and prudence within the investment world. This also prompted the UK Law Commissions' inquiry into fiduciary duties of investment intermediaries, resulting in a report (2014) that defines stewardship activities as including the monitoring of and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance, including culture and remuneration. In November 2015, the Financial Conduct Authority launched an Asset Management Market Study in order to to understand whether competition within the capital market is working effectively to enable both institutional and retail investors to generate value for money when purchasing asset management services. All in all, the current landscape of UK ownership, and the legal and regulatory environment of shareholder protection, are seen to create receptive conditions for investor involvement in corporate governance, while the 'soft' codes have placed expectations on institutional investors to act not as shareholders but as shareowners. The next section of this chapter explores conflicting evidence of investor engagement practices vis-à-vis investee corporations.

Corporate Governance, Investor Stewardship and Disengagement

Long before corporate governance developed as a research discipline, Berle and Means (1932) left an intellectual legacy to the subject of corporate ownership by drawing attention to the growing separation of power between the executive management of publicly-listed corporations and the increasingly diverse and remote shareholders. The separation of corporate ownership from control created information asymmetries and the associated agency problems, which represent core issues in corporate governance research. Information asymmetry in this case means that incumbent managers are in a position to pursue their own objectives, such as increasing corporate size, at the expense of shareholders' interests, for example, the value of the company (Fama and Jensen, 1983). Following this agency perspective, a principal concern of corporate governance is to employ governance mechanisms that resolve or minimize a conflict of interests between managers and shareholders.

A significant body of theoretical and empirical literature about corporate governance exists on the principal-agent relationships, resulting in the formulation of several hypotheses about various governance mechanisms capable of minimizing agency costs. One way of differentiating between governance mechanisms is to refer to them as internal (incentives and monitoring) governance mechanisms and external (monitoring and disciplinary) mechanisms. Internal mechanisms include managerial share ownership (Jensen and Meckling, 1976) and oversight by a board of directors (Fama, 1980; Fama and Jensen, 1983; Baysinger and Butler, 1985), while external mechanisms include managerial labour markets (Fama, 1980), the existence of large external shareholders (Shleifer and Vishny, 1986), mergers, buyouts and takeovers (Hirschey, 1986) and the market for corporate control which acts as a mechanism of last resort (Jensen, 1986; Grossman and Hart, 1987). Fama and Jensen (1983) consider the board of directors to be the most central governance mechanism, arguing that managerial opportunism can be countered by a board of directors that exercises decision control and subsequent oversight of management.

On the other hand, increasingly institutional investors have been seen by scholars as an important governance mechanism associated with monitoring and disciplining management (Mallin, 1994; Gillian and Starks, 2000; David, et. al., 2001; Hoskisson, et. al., 2002; Anabtawi, 2006; Johnson, et. al. 2010). In his seminal work, Hirschman (1970) identified the investor-company relationship within the 'exit' or 'voice' framework, where investors either sell shares ('exit') if they are dissatisfied, or express concerns to management through 'voice' or engagement. However, the evidence of investors behaving as stewards in the spirit of the codes appears more assumed than demonstrated as managerial decision making is still left to professionally trained managers and executives. The empirical evidence investigating this relationship is decidedly mixed (Bainbridge, 2003; Dalton, et. al., 2007; Tilba, 2011; McNulty, 2015). On the one hand, there is much written about 'active' and engaging investors, yet on the other hand, the case is made that institutional investors tend to be 'passive' in their approach to corporations.⁵ Tilba and McNulty (2013) provide further support for this argument when they examine investment practices of UK pension funds, finding them to be distant and more concerned with the performance of the portfolios of their investment managers, rather than the performance of individual companies in which they

⁵ For a review of evidence of both investor engagement and disengagement see Tilba (2011), 'Pension Funds' Investment Practice and Corporate Engagement' *PhD Thesis*, University of Liverpool Management School, 126.

hold shares. Although one might expect pension funds to act as long-term and engaged share owners because of their supposedly long-term investment horizons (Ryan and Schneider, 2002), Tilba and McNulty (2013) found that pension funds do not seek to influence their investee companies because they operate at a considerable distance from their investee corporations with a high dependency on a chain of financial market intermediaries.

It is also vital to stress, however, that in benchmarking the behaviour of institutional investors over this period, one should highlight how since the 1970s it was apparent that in spite of their dominance, investment strategies were determined largely by generating short-term financial rewards, while rarely did they engage much with the management of firms in which they invested (Wilson 1995). The change in duration of shareholding and the apparent lack of investor involvement with investee companies, despite revisions of investor engagement codes, suggests an 'absentee ownership' (Daily, Dalton & Rajagopalan, 2003). An impression of 'ownerless' companies (The Ownership Commission Report, 2012), and of the distant and disengaged institutional investor, is puzzling and runs counter to the theoretical assumptions and normative prescriptions of the codes of best practice.

In the context of investor-company relationships, a number of scholars have been articulating concerns about the ability and inclination of investors to act as principals and monitor and control investee companies. For example, Webb, et. al. (2003) argue that it is not the role of the institutional investors to act like banks in developing a long-term relationship with investee companies, because institutional investors have different time horizons and abilities. Similarly, Hellman (2005) suggests that even large institutional investors cannot assume active ownership because these organisations do not have the organisational capacity or design to acquire adequate knowledge about specific investee companies, so as to make any genuine or worthwhile contribution to discussions on corporate strategy. Furthermore, Hendry, et. al. (2006; 2007) find that the traditional conceptualisations of investment fund managers as 'owners' bears little resemblance to the day-to-day practices of these actors, who primarily behave and view themselves as traders. This is evident from the shortening of average duration of equity holding periods which have been steadily decreasing from 5 years in 1960s to just over 7 months in 2009 (Haldane, 2010). The latest figures of the Ownership Commission (2012) indicate that average duration of equity holding in 2012 was just 2 months. The most recent academic review of the shareholder activism literature by Goranova and Ryan (2014) suggests that the research on shareholder activism (both financial and social) offers conflicting perspectives. There is evidence of shareholder activism and engagement and at the same time there is also a persistent absence of investor influence vis-à-vis investee corporations. Highly publicized cases of excessive management risk-taking in the financial sector and persistent corporate failures further add uncertainty about institutional investor ability to act as owners.

A Transition from 'Managerial' to 'New Financial Capitalism'?

In tracking British business dynamics over time, one should draw a distinction between the work of Foreman-Peck and Hannah (2012) on the early-20th century business, which highlights an early divorce between control and ownership and what Davis (2008) and Jackson (2008) characterise in the later 20th and early 21st century as the era of 'New Financial Capitalism'. The key difference between these periods relates to the nature of the management in each period: the early-20th century is characterised by a continued presence of former family owners within the firm even though they've sold out to investors (Wilson, 1995); while in the late-20th and early-21st century, ownership and control is dominated by professional managers (Wilson and Thomson, 2006). Acknowledging these distinctions, we

move on to see further changes within UK ownership landscape over the course of the last fifty years, which is characterised by the dominance of institutional investors such as insurance companies and pension funds, which represent enormous pools of money invested in the stock market (Cheffins, 2004; Franks, Mayer and Rossi, 2005; Marchica and Mura, 2005; Mallin, et. al., 2005). These changes have been tracked in some detail by Wilson (1995) and Wilson and Thomson (2006). For this reason many scholars have argued that traditional '*managerial capitalism*' has been supplanted by the so-called '*financial capitalism*', a regime characterised by active markets for corporate control, flexible labour markets, the primacy of shareholder value and dispersed share-ownership (Aguilera, et. al., 2006; Clark and Hebb, 2004; Dore, et. al, 1999; Useem, 1996). A number of corporate governance scholars have also argued that in this new era of capitalism it would be rational for institutional investors to act as share 'owners' and use their 'voice', as opposed to 'exiting' by selling large blocks of shares on the market, which would have a negative impact on the performance of the investment portfolio as a whole (Hawley and Williams (2000)). Clark and Hebb (2004) have argued that institutional shareholders such as pension funds are evolving into a new stage of Anglo-American capitalism characterised by the increased significance of the shareholders in corporate governance. They assert that pension funds can act with a unified force, demonstrating an ability to reflect a power shift within a firm away from managers and towards shareholders and the pension funds which represent them.

However, it is important to note that paradoxically, while institutional investors seem to be growing in size and in the concentration of their stakes, which gives them potential influence over corporate managers, their use of equity-holdings generally lacks the corresponding or desirable investor engagement with investee corporations. Indeed, it is increasingly apparent that there is extensive evidence of both high levels of share liquidity and the absence of 'voice' in investor behaviour. Davis (2008) and Jackson (2008) have referred to this process as the emergence of 'New Financial Capitalism', highlighting the reluctance of institutional investors to engage with those firms in which they have invested. More recently, Haldane (2010), Knyght, et al (2011), Nicholson, et al. (2011) and Tilba and McNulty (2013) have also noted that despite public concerns and government reaction, financial sector behaviour appears largely unchanged and geared towards the short-term. This is reflected in the trend towards increased stock turnover and shorter average stock-holding periods (Tomorrow's Owners, 2008; Ownership Commission, 2012). In the US, for example, Société Générale Cross Asset Research (2008) shows that the average period of holding stock on the New York Stock Exchange (NYSE) was just seven months, while in the UK institutional investors' portfolio turnover reached 56% (Jackson, 2008).

Although a number of scholars have argued that this so-called 'new era' of capitalism ought to be characterised by institutional investors (particularly pension funds) acting as share 'owners', the existing evidence of institutional investor distance and investment short-termism indicates that the reality of business ownership and control is more consistent with the prevalence of control by managers rather than institutional owners. This supports Martin, et. al's (2007) conclusion that managers rather than owners determine the destiny of the firm. This is also something that Foreman-Peck and Hannah (2012) have observed happening in the first half of the 20th century. Furthermore, the authors also provide evidence of increases in personal ownership in a wide range of societies (US, Sweden, Italy, France and ex-communist countries), suggesting that personal capitalism is alive and well everywhere. This brings into question the frequently evoked, but rarely analysed, generalisation that traditional managerial capitalism has been supplanted by so-called 'Financial Capitalism'.

While labels such as 'Financial Capitalism' or 'The New Financial Capitalism' have been used extensively, it is apparent from existing research that corporate management are

rarely exposed to the full impact of the influence institutional shareholders have over either strategic or operational decision-making. Indeed, such is the extent of disengagement in corporate decision-making by institutional shareholders one might conclude that, in effect, very little had changed in British business over the course of the twentieth century. In the first place, it is well known that executives are able to control a company when holding much less than fifty per cent of the equity, while as a result of the growing importance of institutional investment and the appointment of financial representatives onto the board of most publicly-floated companies, one might argue that there had been no substantial divorce between control and ownership. Zeitlin (1974; 1107) confirms this by noting that with regard to American corporations, the alleged separation of ownership and control could well be described as a 'pseudofact', because all that had happened was a change in controlling interest. With specific regard to post-1945 trends in British business, while the long history of family boardroom domination might have ended in all but a few of the large businesses which dominated the industrial landscape by that time. In effect, institutional investors rarely engaged much with management, leaving the latter free to dictate strategy and other aspects such as remuneration. This is consistent with Cheffins (2001; 2004), who demonstrates that companies both in the US and the UK are run by professional managers and are configured on the 'outsider/arm's-length' basis, where publicly traded shares are being traded amongst dispersed and passive shareholders. Cheffins (2001) suggests that the arm's-length approach prevails because investors are more concerned with the overall performance of their portfolio of shares, rather than with developments affecting any one particular company.

Based on these important observations one can conclude that when terms like 'Financial Capitalism' or 'The New Financial Capitalism' emerge in the literature, but do not sufficiently reflect reality, we need to challenge such notions. Specifically, one can conclude that managerial capitalism has prevailed in British business since early 20th century (Foreman-Peck and Hannah, 2012). While there has been a transformation in the ownership of especially large-scale British firms, management continue to exert control over strategic and operational direction, albeit in the context of a financial environment dominated by the need to sustain short-term performance indicators, while financial institutions remain primarily concerned with short-term investment returns and practices. In spite of frequent exhortations to change their orientation, institutional owners choose to disengage from the firms in which they invest, preferring instead to focus on financial trading as their principal *modus operandi*. There is an argument to be made here that in order to understand the complex nature of relationships between managers and owners in British business in the twenty-first century, a radical re-appraisal of terminology and methodology is therefore required.

Forces of Transition in Business History: The Importance of Context

Foreman-Peck and Hannah (2012) caution against generalisations about industrial systems and varieties of capitalism which foundered because international differences have been casually diagnosed. The authors highlight a need to develop alternative models of governance/performance interactions within nations in order to understand the chequered evolution of managerial capitalism. Within the corporate governance literature, several scholars have also emphasized the lack of attention to context (Aguilera and Jackson, 2003; Johnson, et. al, 2010; Renders and Garemynck, 2012; Jansson 2013). Ahrens, et al. (2011) point out that the financial crisis of 2007-09 was a wake-up call for corporate governance research, introducing factors such as the influence of national and institutional environments on company behaviour and performance. Most recently, in their review of the field of corporate governance research McNulty, Zattoni and Douglas (2013) highlight a need for

more rigorous and relevant qualitative studies exploring the array of interactions and processes involved in corporate governance across different levels of analysis and contexts.

Johns defines context as ‘situational opportunities and constraints that affect the occurrence and meaning of organisational behaviour as well as functional relationships between variables’ (2006: 386). Despite the fact that context can have both subtle and powerful effects, the impact of context on organisational behaviour has not been sufficiently recognised or appreciated by researchers, resulting in a general lack of refined, systematic language for expressing context (Johns, 2006). In management research the focus on explaining lower rather than higher levels of analysis comes at the expense of overlooking industrial macro-cultures. Studying context also means exploring manifestations or facets of context as related, rather than independent, and over time (Johns, 2006).

In order to gain a better understanding of both the nature of business development and the total environment in which that activity occurs, one needs to employ models and conceptual frameworks that would encompass the clues about issues such as: the nature of decision-making within a firm: the nature of ownership and control in a company; and the clues about internal values and external pressures. It seems sensible to re-visit earlier arguments made by Toms and Wilson (2003) who emphasized the need for a comparative analysis of financial institutions and their relationships to corporate business policy and revise older and more static models that ignore the dynamics associated with business evolution and accountability relationships within the UK system of corporate governance (Toms and Wilson 2003). Toms and Wright (2002) suggest that the strategy and structure of British business is closely linked to the relative effectiveness of governance and accountability mechanisms.

Significantly, Toms and Wilson (2003) have developed a conceptual framework (illustrated Figure 1), which might be helpful to this line of inquiry. The framework is based on ‘the notion that business is always in transition, strategically and structurally, governed by interaction of scale and scope economy exploitation and accountability of external stakeholders’. This framework holds potential for further analysis and empirical testing because it allows researchers to move beyond the static descriptors like ‘*managerial capitalism*’ or ‘*personal capitalism*’ which have been used to illustrate either the common ownership type or a locus of power within business firms.

Toms and Wilson (2003) provide several compelling arguments against using the typical ‘stages’ approach to the evolution of British business. Firstly, they argued that many business historians have applied these stages in a rather atheoretical manner, attempting to find suitable adjectives to describe different types of ‘capitalisms’, and in so doing fail to make any theoretical contribution, neglecting interesting and causal processes of *transition* from one ‘stage’ to the next. Secondly, they find ‘the Darwinian’ nature of these stages limited, as it views businesses being capable of merely adapting to changes in their environment. This assumption is problematic because, as history lessons have shown, businesses (especially large-scale) have successfully fashioned their own environments.⁶

⁶ For example, N. Fligstein, *The Transformation of Corporate Control*, (Cambridge, MA, 1990); D. Korten, *When Corporations Rule the World*, (London, 1995); G. Monbiot, *Captive State: The Corporate Take over of Britain*, (London, 2000).

Thirdly, the static stages omit the significant role played by external arrangements like networks and clusters.

In place of this static analysis, Toms and Wilson propose a more flexible way of understanding the evolution of British ownership and control by mapping out the forces of transition in business history. More specifically, the framework is based on the incorporation of corporate governance and accountability relationships and the analysis of scale and scope economies in the internal and external components. The strength of this conceptual framework comes primarily from being flexible enough to allow for different firms and industries of *different types of capitalism* to co-exist within *the same economy* and *in the same historical period*. Crucially, Toms and Wilson (2003) highlight that there does not have to be an inevitable progression from inefficient to efficient capital markets, or from low accountability to high. In other words, although the framework is capable of accommodating the ‘stages’ approach, it does not imply a teleological perspective that everything moves towards what we can observe today. In short, this means that different forms of capitalism could be operating alongside each other.

Using this approach offers the possibility of coming to terms with the existing complexity of capital markets, and at the same time with contradictory evidence of a lack of owner-investor control of managerial decision-making. It is then possible to argue that the current elements of ‘*financial capitalism*’ like shareholder primacy, financialisation of business strategy and the power of large financial intermediaries can co-exist alongside dispersed share-ownership, and a lack of investor engagement and control of managerial decision-making - characteristics mainly associated with ‘*managerial capitalism*’. Using Toms and Wilson’s historical example of textile mills of Oldham in the 1860-1890 period, it is also equally possible to see how the democratic ownership of local mills using the one-share-one-vote mechanism, alongside extensive financial disclosure that held relatively powerless directors to account – a trend that today is associated with ‘*financial capitalism*’.

Conclusions

Over the past twenty-five years, we have witnessed an endless flow of corporate scandals accompanied by criticisms of financial markets and indeed the nature of ‘capitalism’ itself. While governance codes of best practice have been evolving since Cadbury 1992, there is still very little to show for all this activity (Keating, 2015). McNulty, Zattoni and Douglas (2013) have also reviewed the field of corporate governance research, observing that after over two decades of research, reform and prescription via codes and other forms of regulation, problems of corporate governance practice still remain. One of the key problems of studying ‘varieties of capitalism’ (Useem, 1996; Whitley, 2000; Morgan and Whitley, 2012) is its concentration on a small number of variables across different environments and a consequent tendency to ignore variations in context and combinations of institutions that lead to these variables behaving differently when set in different ensembles. Comparative institutional analysis needs to step back and identify the conditions under which different levels of outcomes and relationships occur. There is a need to build more dynamic models of the relationships between actors and across different sorts of contexts. By emphasizing the

fluidity of business evolution and crucial links with corporate governance and transaction-cost economics, Toms and Wilson's (2003) theoretical framework sets out a substantial agenda for future empirical research.

What remains empirically unresolved is that on the one hand much of the corporate governance debates have neglected historical evidence, while on the other hand few historians have incorporated corporate governance theories into their analyses. A way forward would be for both disciplines to engage in an intellectual conversation that would attend to both historic context as well as theoretical and practical implications. Important questions to address would be: what is the nature of current ownership and how is control exercised; what are the implications of national and organisational contexts; and ultimately, when we conceive capitalism as a system of economic organisation. In particular, future research questions should explore which of the 'varieties of capitalism' (shareowner or stakeholder) is less flawed as a means of generating wealth and ensuring that it is distributed equitably and effectively.

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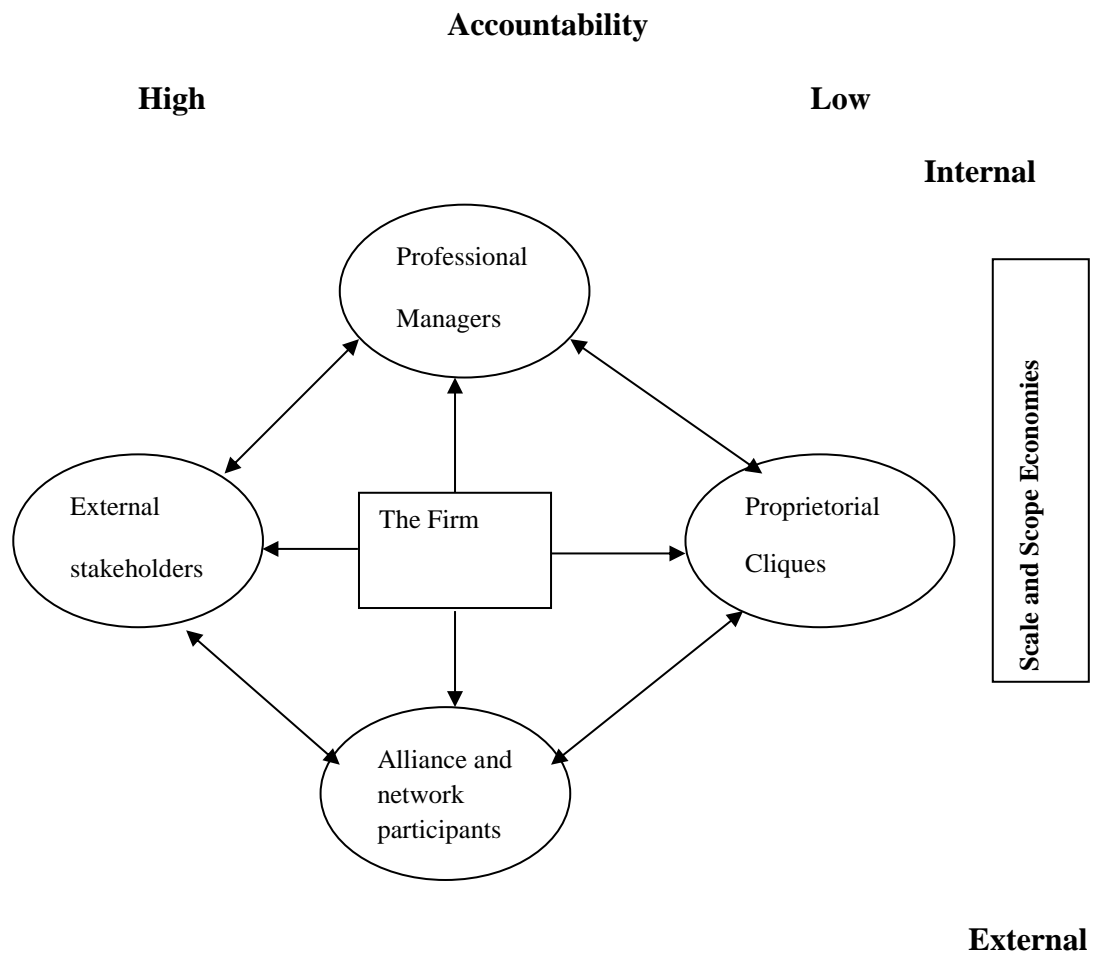
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Figure 1: Forces of Transition in Business History



Source: Toms and Wilson (2003).